- Good morning, welcome everyone and thanks for coming along.

- While the global aviation sector has been scarred by the events of September 11 Qantas, unlike other airlines, has seen an improvement in its outlook, as a result of the collapse of its largest competitor Ansett.
- Ansett ceased operations on September 14. Up until that point, Ansett held 40 percent of the Australian domestic market, and the resulting shortfall in capacity in the domestic market has had a major positive impact on Qantas' operations.
- The story right now is one of extreme volatility. But, as in all times of change, it is also a story of opportunity. Qantas is aggressively focused on the opportunity, and we aim to secure maximum benefit for our shareholders.
- In this volatile environment, success for us is going to depend to a large extent on being flexible, cutting underperforming routes and seizing opportunities as they appear, while keeping a rigorous control on our costs.
- Our success will also be affected by factors we cannot control but will seek to influence, such as the broad regulatory constraints we operate within.
- What I want to do today is highlight the forces and factors at play for Qantas and our approach to them, while analysing the critical areas which will be central to our success.

- Firstly, our international operation.
- Qantas has seen a reduction in international bookings and overall traffic levels since September 11.
- Bookings from Japan and the UK are down approximately 25 percent and overall traffic levels have declined market by market between 10 and 20 percent.
- However, we have moved quickly to reduce our flying on routes where demand has fallen.
- Our withdrawal of services to New York from November 25 will take the number of services we offer to the US from 31 to 25 per week.
- We will also rationalise our flying to Rome, Johannesburg, India, Bangkok, Manila, Taipei, Jakarta and Buenos Aires.
- These changes equate to an international capacity reduction of around 11 percent.

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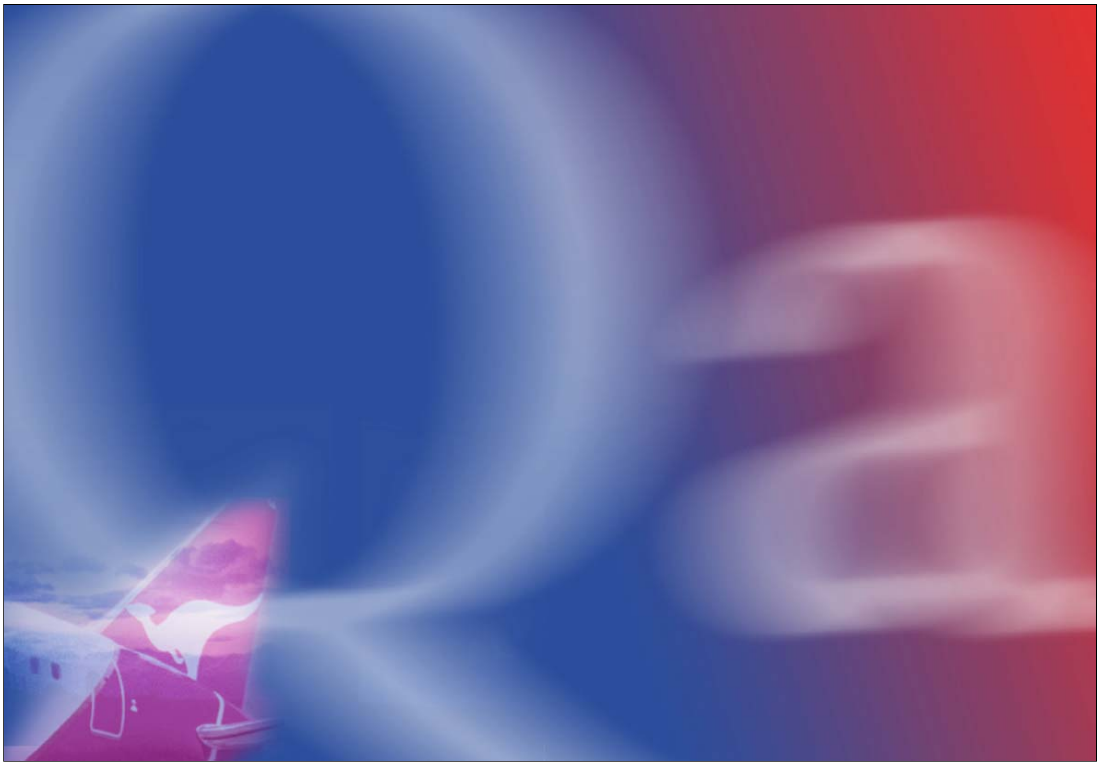

- We will continue to monitor the international situation closely, however every effort will be made to resume withdrawn services as quickly as possible to help arrest the downturn in inbound tourism.
- Capacity freed up by this rationalisation will be redeployed to address the domestic capacity shortfall following the collapse of Ansett.
- As a short term measure, a total of three B747 aircraft, five B767 aircraft and five B737 aircraft have been redeployed to our domestic operations, to address the capacity shortfall following the collapse of Ansett.
- Capacity leased from Air Canada, Air Pacific, Polynesian Airlines and Ansett Worldwide Aviation Services to serve the international market for a term of three months has further helped us to redeploy Qantas aircraft to domestic flying.

- British airways have also assisted the redeployment of capacity to the domestic market, taking over joint services agreement flying on one Sydney-London route, also for a term of three months.
- As new narrowbody aircraft deliveries arrive to serve the domestic market on a permanent basis, the redeployed capacity will be returned to the international market.
- The ability to flexibly move aircraft across our international and domestic route networks is key to our strategy and we will continue to further adjust capacity as necessary.
- To this end, we have announced our decision to accelerate the retirement of our five Boeing 747-200 aircraft from April 2002.
- We will also retire our two B747SP aircraft during the 2002 financial year, as previously announced.

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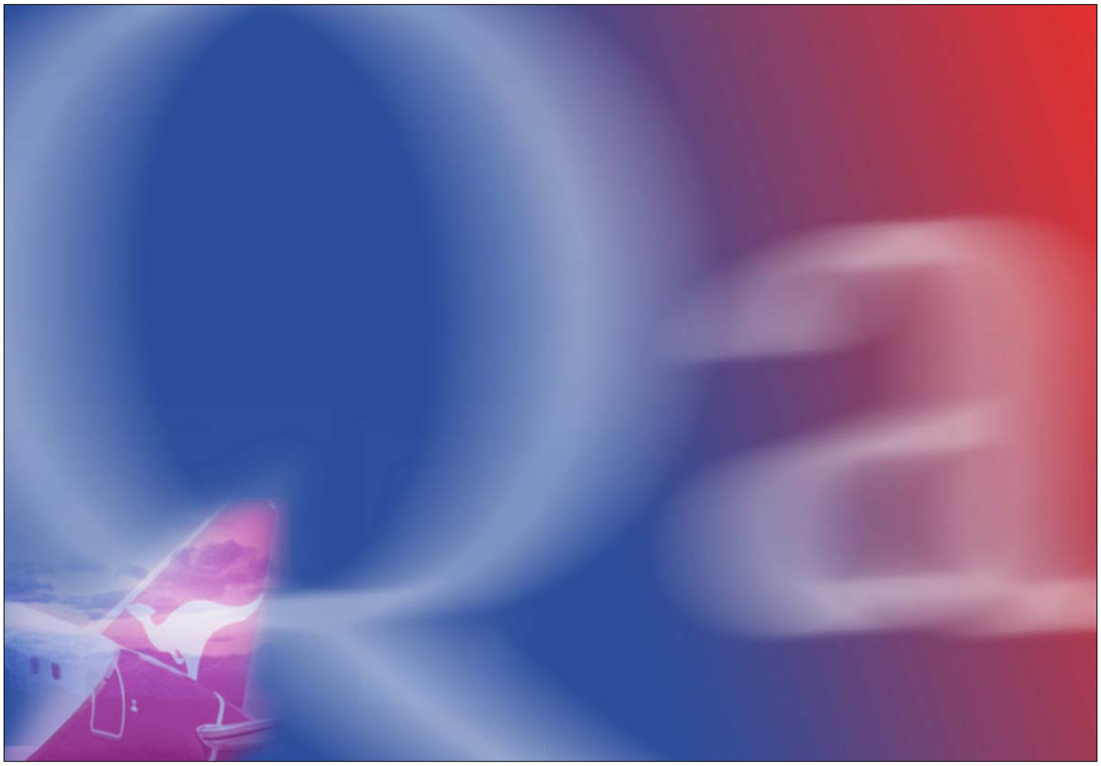

- These seven aircraft currently have a combined written down value of A$14 million and can therefore be removed from our fleet with virtually no profit and loss impact. However, even more positively, their retirement will enable a step change in our cost base through the removal of heavy maintenance costs and the cost of spares specific to these aircraft types.
- We also have the ability to slide the delivery of three B747-400ER aircraft that are due in late 2003, if necessary.
- Significantly, we are seeing a slight lessening of pressure, which gives us some hope for latter 2002.

- During this difficult period we intend to sieze the opportunity to accelerate our strategy of segmenting our markets.
- As a premium carrier, we will remain committed to the traditional three class product for our long haul flying to the US and Europe.
- However, we have realised that protecting our position as a premium carrier does not necessarily confine us to offering a homogenous product in each of our international markets, regardless of the return they generate.
- Previously, our international strategy has been to grow our profitable markets, and conversely to progressively withdraw from those routes which we've been unable to profitably service.

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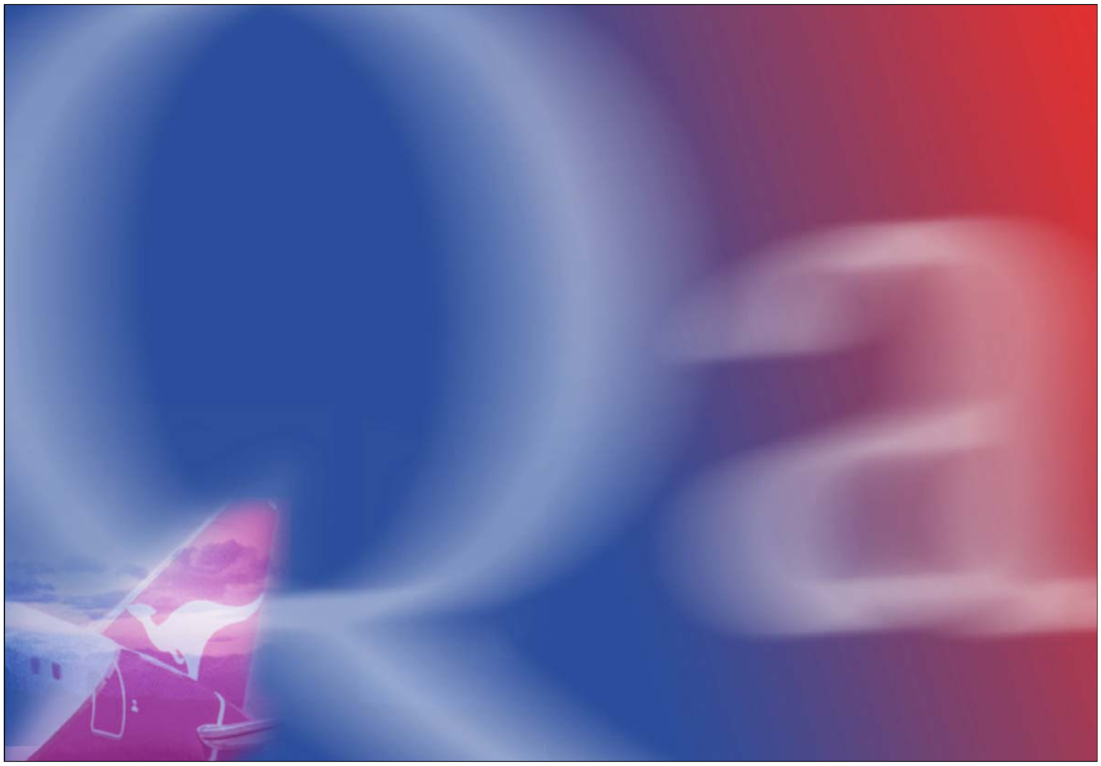

- As a consequence, while our international operation has grown in profitability during the six years since privatisation, the number of routes that Qantas services has fallen.
- Our most recent route withdrawals occurred in may this year, when we ceased flying to Vancouver and Shanghai. Other routes we have withdrawn our services from during the past ten years include a number of Asian destinations such as Sapporo, Fukuoka and Taiwan. While these routes do not generate an acceptable return for Qantas, they do represent a viable proposition for an airline with a lower cost base.
- It was with this in mind that Australian Airlines was born. Australian Airlines will commence flying in 2002, and will operate independently of Qantas, to ports not serviced by Qantas.

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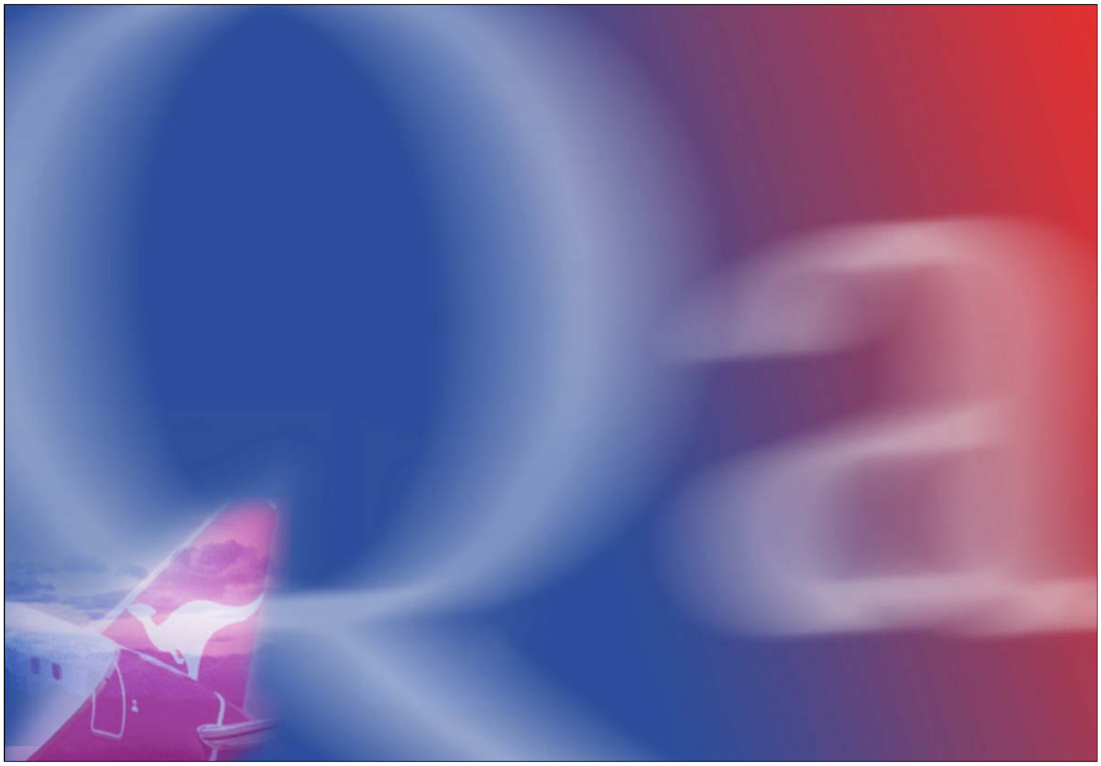

- Australian Airlines will be a low cost, but not low service airline. The airline will achieve up to a 25 percent cost advantage over Qantas through a two-class seating configuration and lower labour rates.
- While the route structure of Australian Airlines has not yet been finalised, the Asian routes I mentioned (Sapporo, Fukuoka and Taiwan) will likely be included in the line up of initial routes.
- We will also withdraw from other Qantas routes that do not generate an acceptable return, such as Denpasar, Osaka and Honolulu, and will expand Australian Airlines to fill the gap.
- We will also continue to leverage the strength of our alliance partners. Within the **one**world alliance, our relationships with British Airways and American Airlines are both particularly important.

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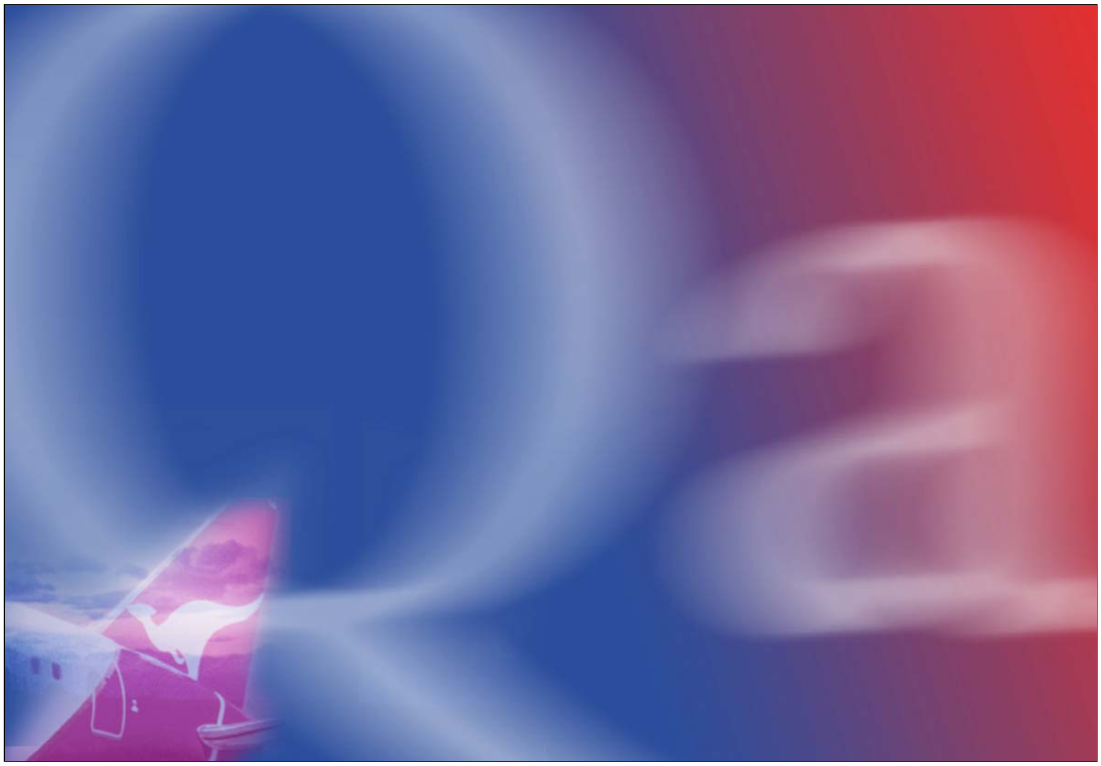

- As I mentioned earlier, through co-operation with British Airways, significant international capacity has been redeployed as a short-term means of meeting our domestic capacity requirements. And we have recently announced the extension of our commercial agreement with American Airlines to include common specifications for aircraft and joint purchasing arrangements, which will provide significant cost benefits and fleet flexibility.
- Elsewhere, our partner relationships with both **one**world and other carriers serve to provide feeder traffic and enhance our network offering. Route specific partnerships, such as those with Cathay Pacific and Japan Airlines, enable us to capitalise on operating efficiencies and better access overseas markets.

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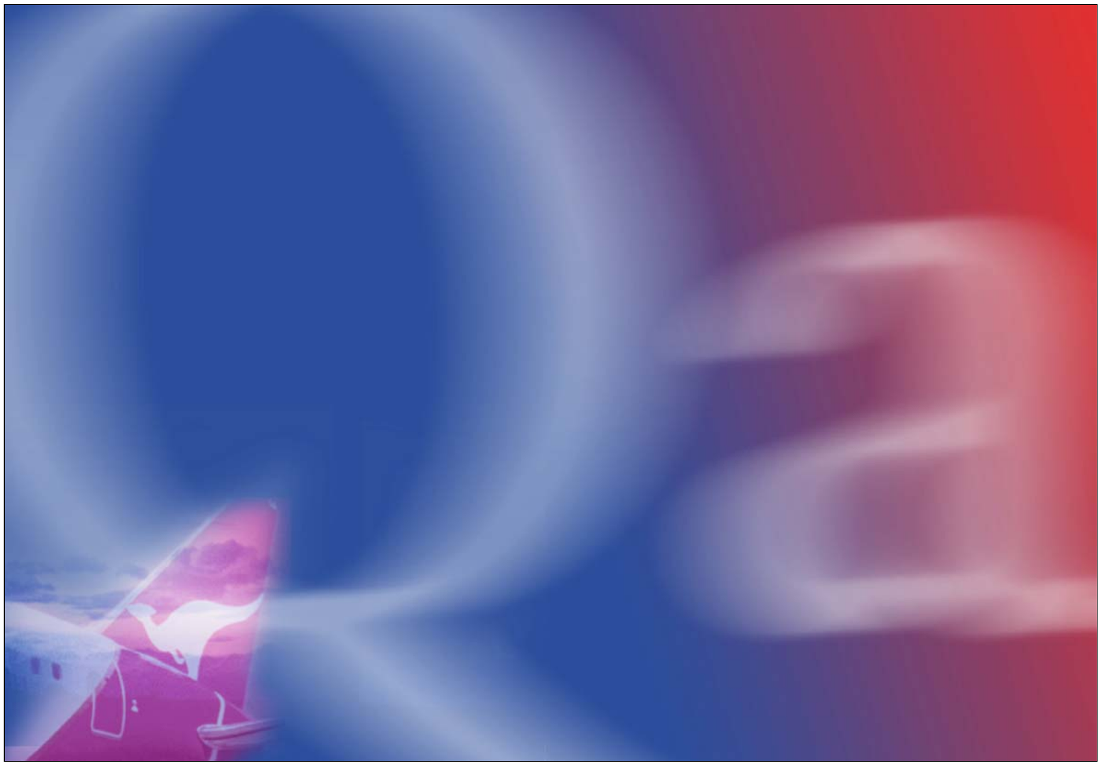

- Our international operations have also been strengthened by continued investment in our product, and this was recently recognised when we were awarded as having the best first class cabin product in the world. We are continuing to invest in our product. The first of our refurbished Boeing 747-400 aircraft commenced flying in June this year, with renewed equipment in all classes, including the installation of personal video screens in every seat.
- Our recently announced ten year fleet plan also demonstrates our commitment to continue investing in our product. While the orders were placed under different operating conditions, they remain as relevant today as then, if not moreso.

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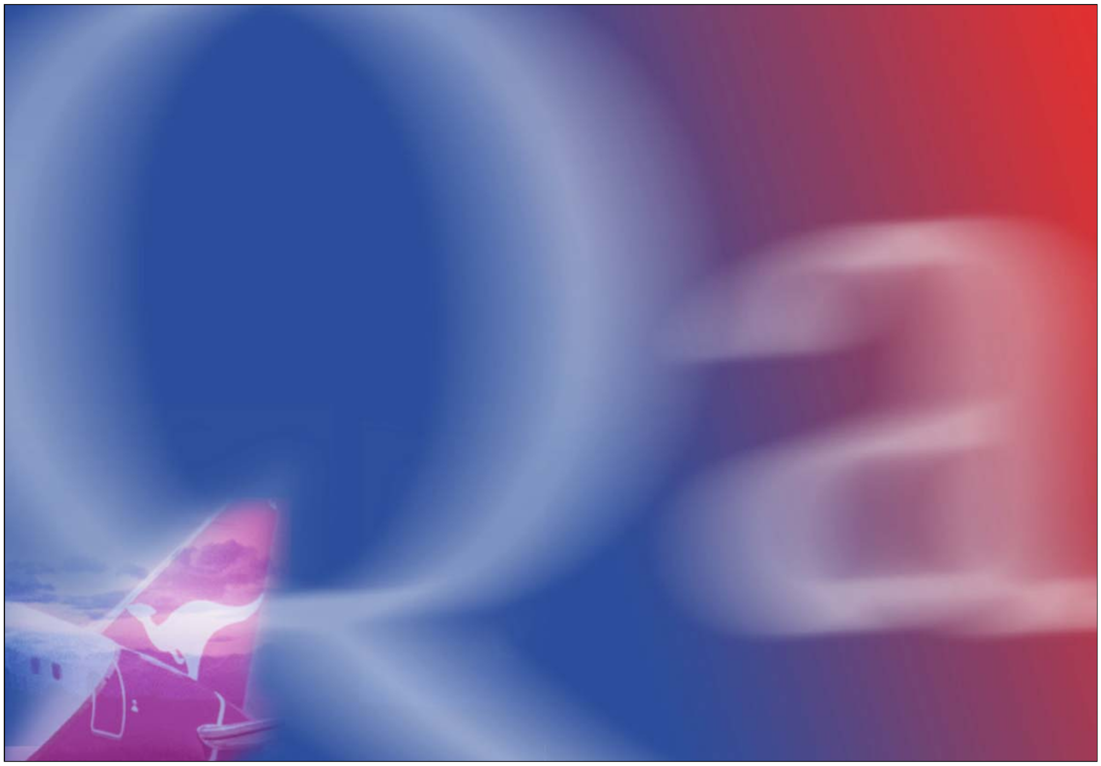

- And the purchase price we were able to negotiate for these 31 aircraft remains highly competitive.
- We will take delivery of the first of 13 airbus A330 aircraft in November 2002. The plan also includes orders for 6 Boeing longer range 747-400 aircraft to be delivered during 2002 and 2003, and 12 Airbus A380 aircraft for delivery between 2006 and 2011.
- However, significant flexibility has been built into the plan, in the form of slide rights, that will enable us to move delivery dates to match our capacity requirements. I touched earlier on our ability to slide deliveries of some B747-400ER's, however this flexibility applies equally to all aircraft types included in the plan.

- Now to our domestic operation.
- I mentioned earlier that Ansett, previously Australia's number two domestic carrier, ceased operations on September 14.
- Prior to its collapse, Qantas held just over 50 percent of the domestic market, Ansett held just under 40 percent, and Virgin Blue held the remaining 10 percent.
- Following the cessation of Ansett services, Qantas moved quickly to ensure that the needs of the domestic market were met. Our domestic market share post Ansett's collapse has trended around 90 percent.
- To give you an idea of the increased passenger loads our domestic operation has carried, since September 14:
  - We have carried almost 50,000 stranded Ansett passengers free of charge, and
  - We have transferred a further 65,000 Ansett passengers at greatly reduced fares.

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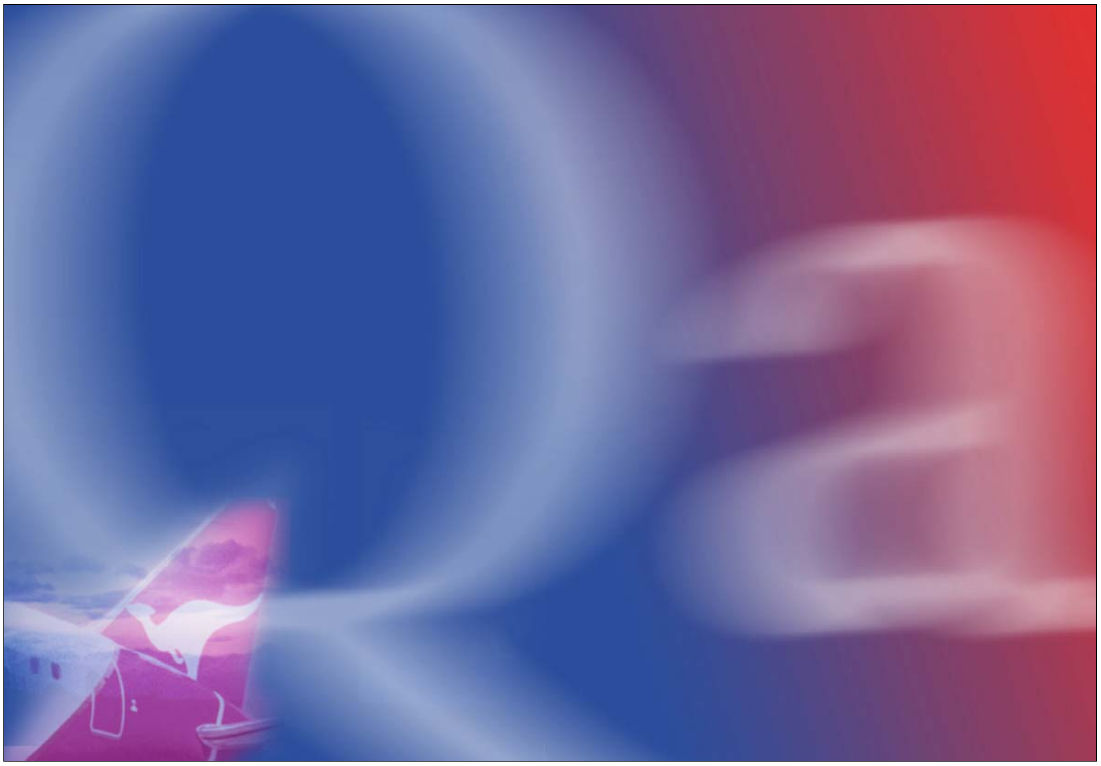

- Going forward, while Virgin will grow and Ansett Mark II or other players may emerge in the Australian domestic market, this changed environment presents an opportunity for Qantas to significantly increase domestic market share.
- We expect that Qantas' domestic market share will settle in the region of 70 percent.
- The Australian government has now made plain its intention as to the level of support it will provide to Ansett Mark II. We continue to believe that with three competitors in the market it will be a competitive environment.

- As I detailed earlier, our short term means of increasing domestic capacity has been to redeploy a total of three B747's, five B767's and five B737's from international flying.
- This capacity reallocation is very much a temporary measure and in the medium term these aircraft will be returned to international flying.

- In the medium and longer term, our growth in the domestic market will be facilitated by the acquisition of:
  - 15 new generation narrowbody B737-800 aircraft, and
  - Five Dash 8 aircraft (two purchased, three leased).
- The aircraft will be progressively delivered and installed into service between January and July 2002.
- The introduction of this permanent domestic capacity will herald a comprehensive, value enhancing, change in our domestic product.
- Understandably, the aircraft have been obtained at greatly reduced prices. The total cost of the acquisition will be in the order of A$1.5 billion, including start-up costs.
- A further 60 no-cost options are available to Qantas at these reduced prices.

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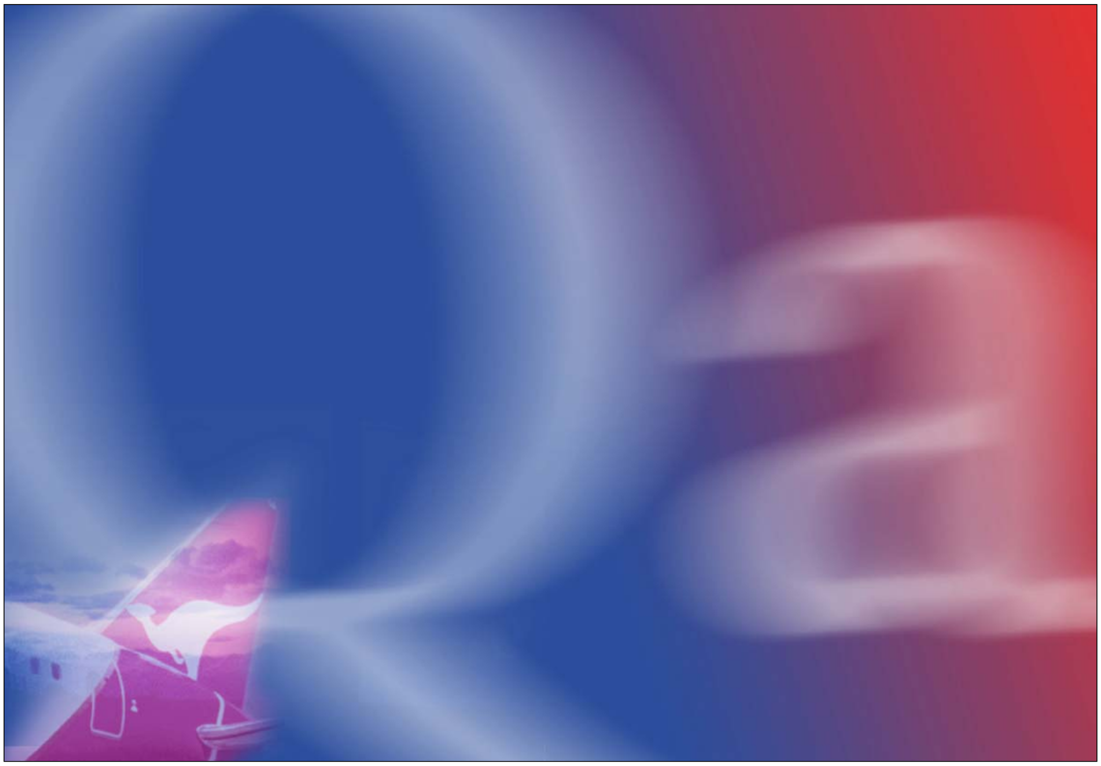

- Significantly, these aircraft will be delivered in the same configuration as that flown by American Airlines, which will create opportunities for short-term leasing between Qantas and AA during peaks and troughs in demand.
- The business case for the acquisition shows:
  - A reduction of 25 percent in operating cost per ASK, and
  - A reduction of 13 percent in total cost per ASK, compared with that of our existing narrowbody fleet.
- And over ten years, the acquisition generates:
  - A positive net present value of approximately A$800 million, and
  - An internal rate of return of over 24 percent.

- While these significant cost benefits will be partly delivered with the introduction of new, more efficient aircraft, the bulk of the cost reduction will be achieved through the seating density on the aircraft and labour efficiencies.
- For the first time, Qantas will fly an all economy-class aircraft, with new slimline seating and a seating capacity of up to 180 passengers.
- Other existing narrowbody aircraft will also be reconfigured, to create a fleet of around 40 all economy class aircraft.
- The all economy class fleet will be deployed on trunk routes where there is little or no demand for the premium domestic product.
- On flights between Sydney and Melbourne and Sydney and Brisbane where there is a higher concentration of business travel, we will continue to operate a two-class, predominantly widebody fleet.

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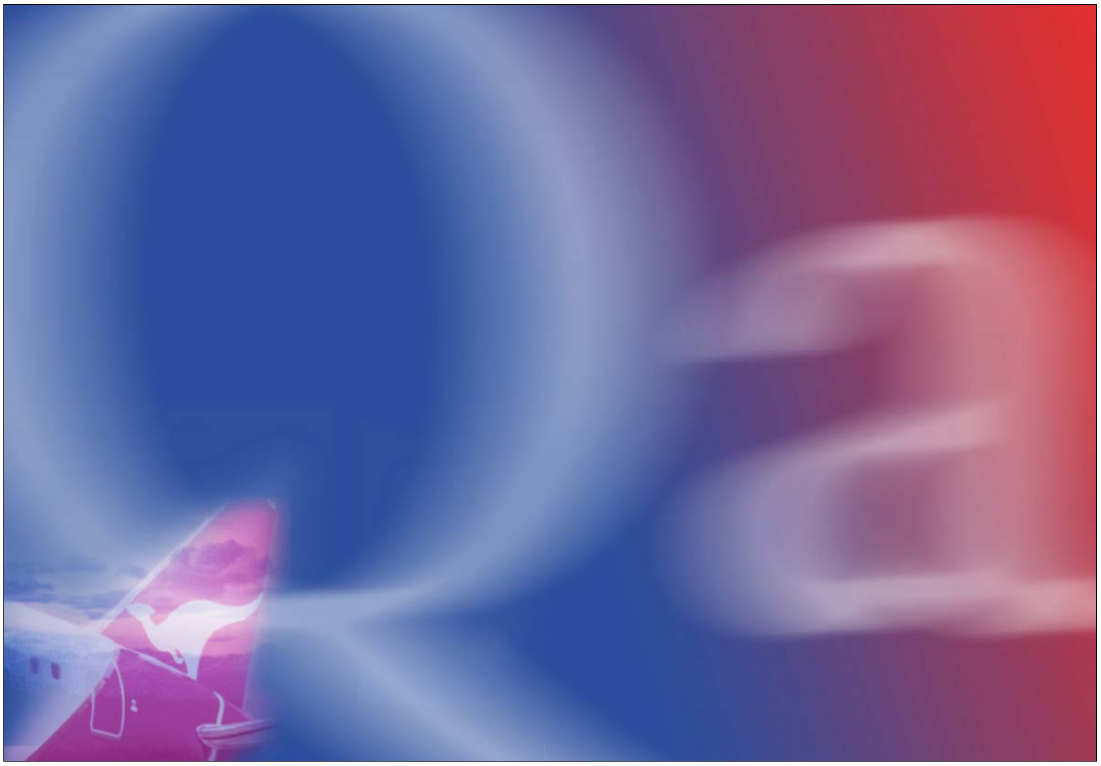

- The CityFlyer product, which will service these routes, offers frequent schedules and a range of dedicated facilities to better serve this important part of our domestic market.
- Our long haul domestic flying, for example between Sydney and Perth, and Sydney and Cairns, will continue to be serviced by two class B747 aircraft.
- The domestic product review will also include the further roll-out of the boxed lunch concept throughout our domestic economy class cabin.
- Although the unit cost of this new meal service is not significantly cheaper than the traditional meal offering, it does provide flexibility to review the size of our domestic cabin crew complement, which will provide significant unit labour cost savings.

- It is also appropriate to outline some of the cost pressures this changed operating environment places on our business, and the proactive steps Qantas is taking to mitigate the impact of these pressures.
- While we have successfully implemented various manpower initiatives in the past, these will be brought under an overall manpower review program that will ensure we drive labour efficiencies as we grow.
- To this end, we have asked our unions for a 12 to 18 month wage pause, in return for an incentive scheme that would see employees receive a lump sum payment equivalent to 3 percent of their base salary if we match last year's profit result.
- The wages pause has so far been accepted by over 90 percent of our workforce.

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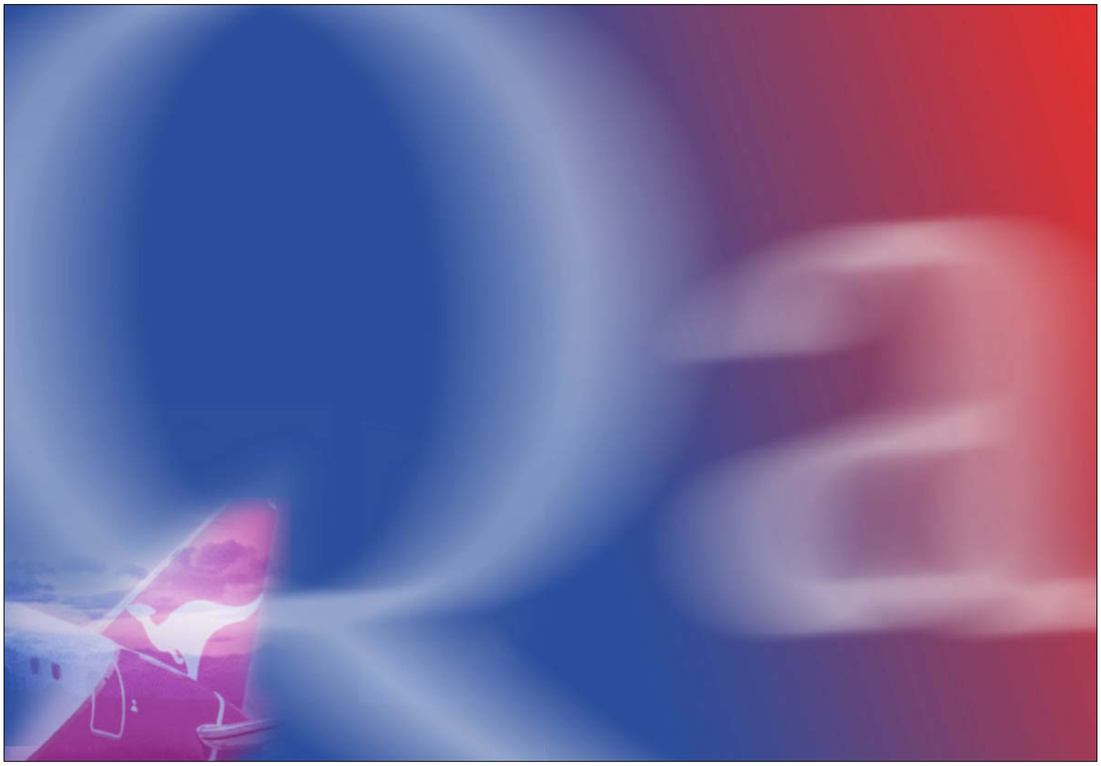

- Regrettably though, we have also announced we will reduce staff positions by between 1,500 and 2,000 before the end of December 2000. This will be achieved by redundancies, attrition and by not filling budgeted vacancies.
- Other manpower measures include:
  - An executive salary freeze and further 10 percent reduction in executive staff numbers;
  - A freeze on the appointment of contractors, consultants and non-operational staff;
  - The taking of annual and long service leave;
  - Job sharing by interested staff; and
  - Leave without pay.

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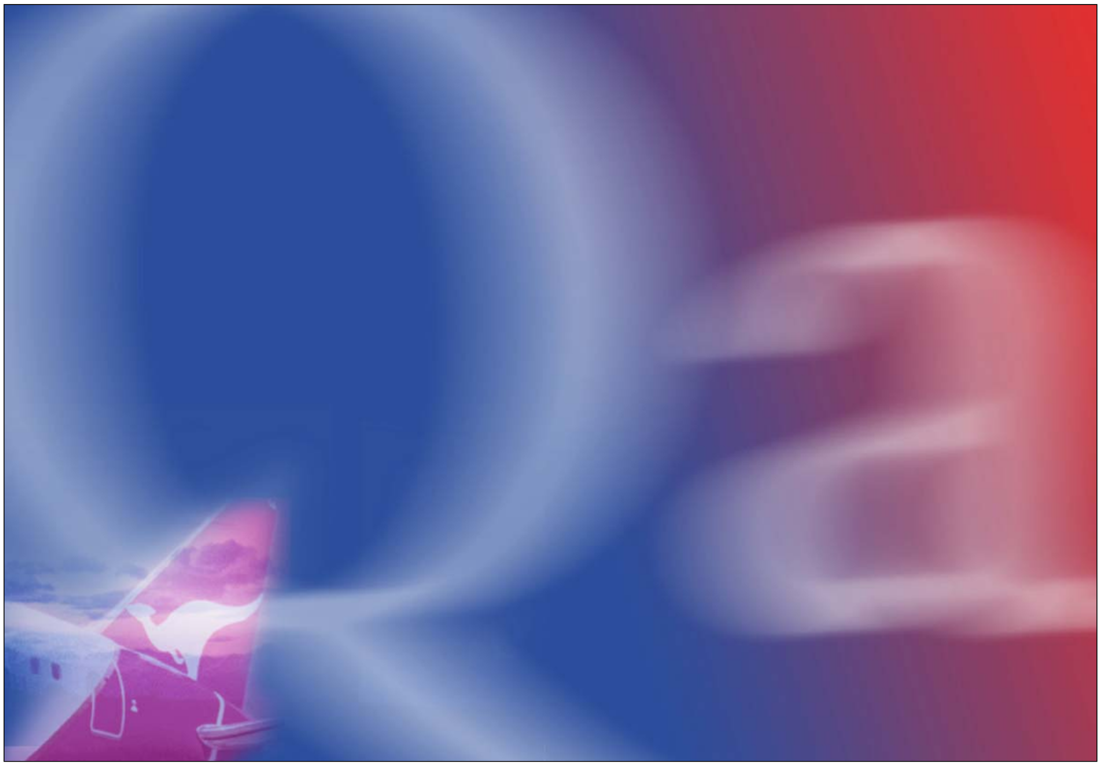

- With respect to our fuel costs, our strategy of running unhedged with the expectation that fuel prices would fall has worked.
- We are now in the process of taking on additional cover at these lower prices, for the 2001/02 year, and further out to the 2003 and 2004 years.
- We currently forecast our total net fuel costs to increase by A$200 to A$250 million in the 2001/02 financial year, inclusive of a significant amount of additional flying.

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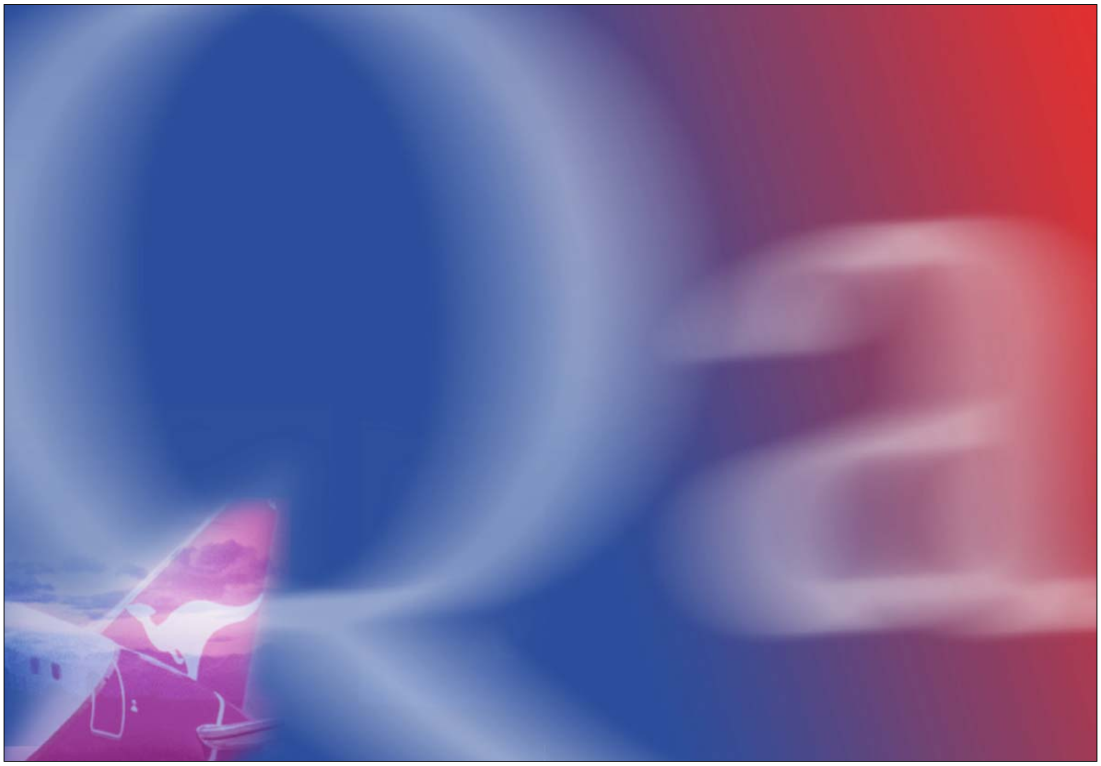

- Like all airlines, our insurance costs will rise as a result of the September 11 events.
- From 5 October, Qantas began collecting a surcharge of US$3.30 from each passenger to fully recover the additional cost of war risks insurance coverage.
- However, we are not yet in a position to quantify the increases that will flow through to underlying insurance premiums, nor the extent to which these will able to be levied on passengers.
- Additional security measures implemented throughout our operations will add approximately A$15 million per annum to Qantas' cost base. Again, the extent to which these additional industry costs may be recovered from passengers has not yet been determined.

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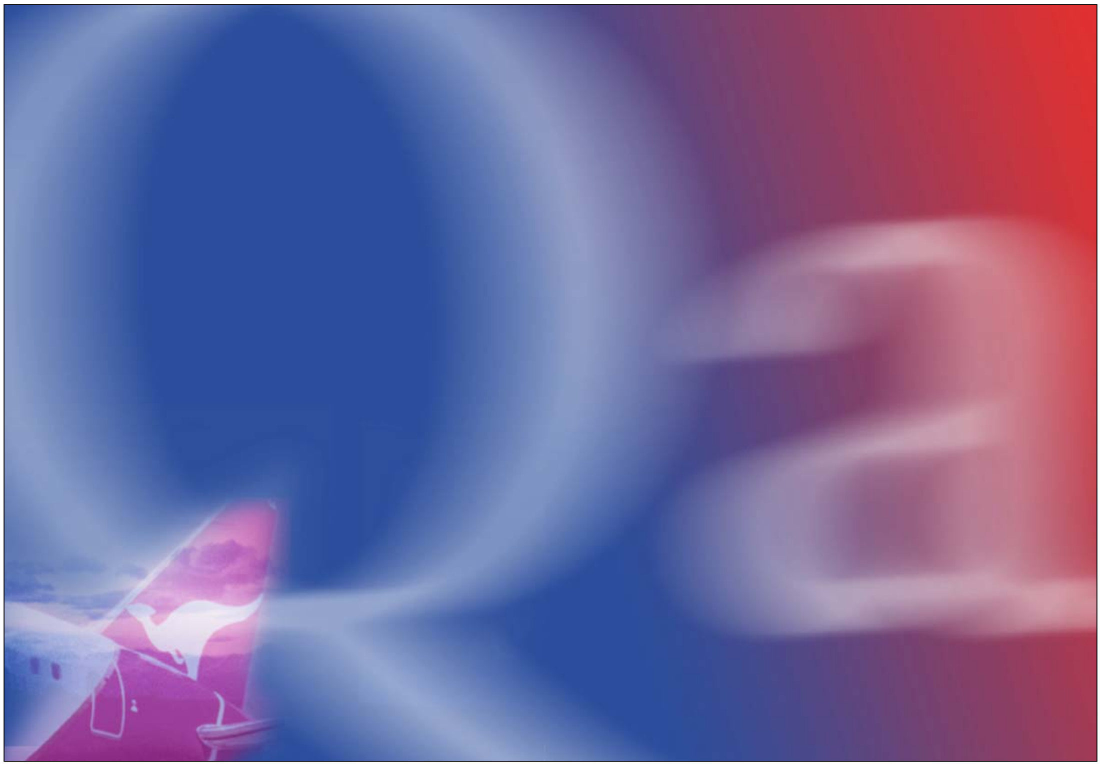

- Lastly, aviation charges are also rising. Even prior to Ansett's collapse, the ACCC approved increases in landing charges at Sydney airport of 97 percent. This translates to an annual increase of approximately A$40 million for Qantas.
- And to compensate airport owners for lost revenue following Ansett's collapse, the government has moved to allow higher airport charges at Brisbane, Melbourne and Perth airports, and to remove the price caps that regulate airport charges at other privatised airports around Australia.
- Again, we are not yet in a position to quantify the extent of these additional airport charges, and whether these increases will be able to be levied on passengers.
- We will though, carefully monitor what airports are doing and will tailor our operations to match. Qantas will seriously consider overflying certain airports should airport landing charges become prohibitive.

- Before I summarise with an earnings outlook, I'd like to say a few words about our capital management strategy.
- Since privatisation, we have worked hard to ensure our balance sheet position is strong.
- We believe that shareholder value is maximised with an investment grade credit rating.
- This equates to a gearing range of 50 to 60 percent, in terms of net debt to net debt plus equity, including off balance sheet debt.
- Our net debt to net debt plus equity (including off balance sheet debt) at 30 June 2001 was 53 percent.
- Funding of the narrowbody aircraft acquisition solely through debt would have increased our gearing beyond our target range.

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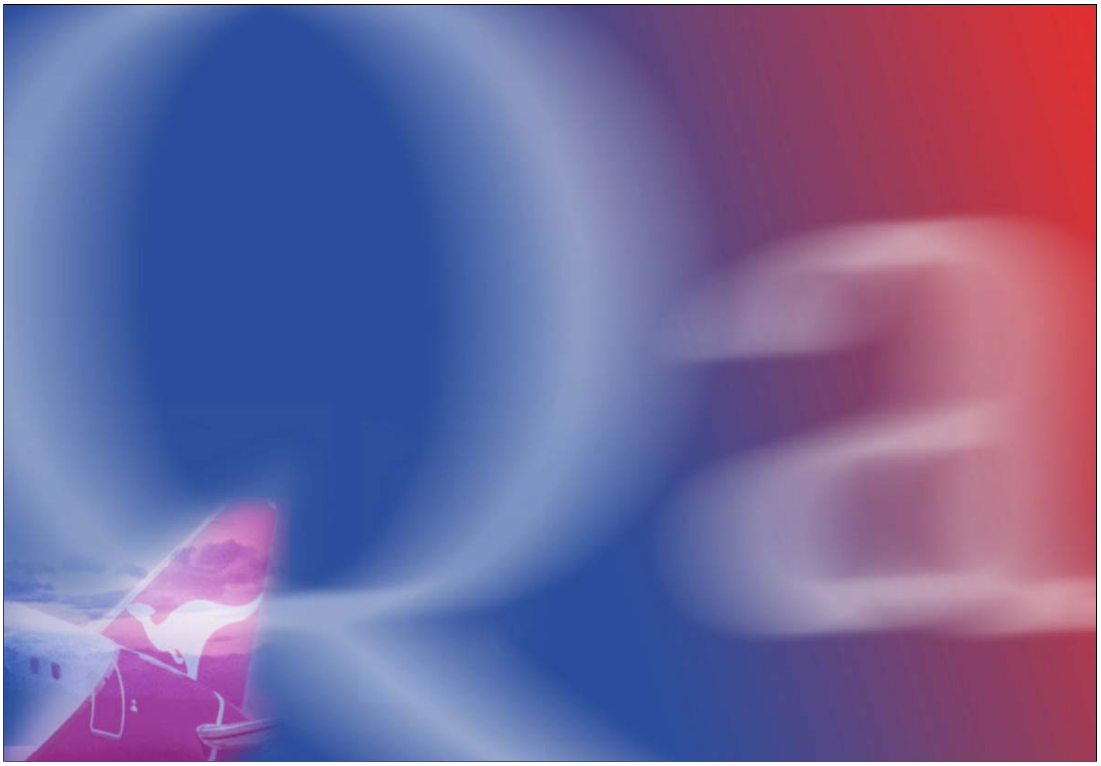
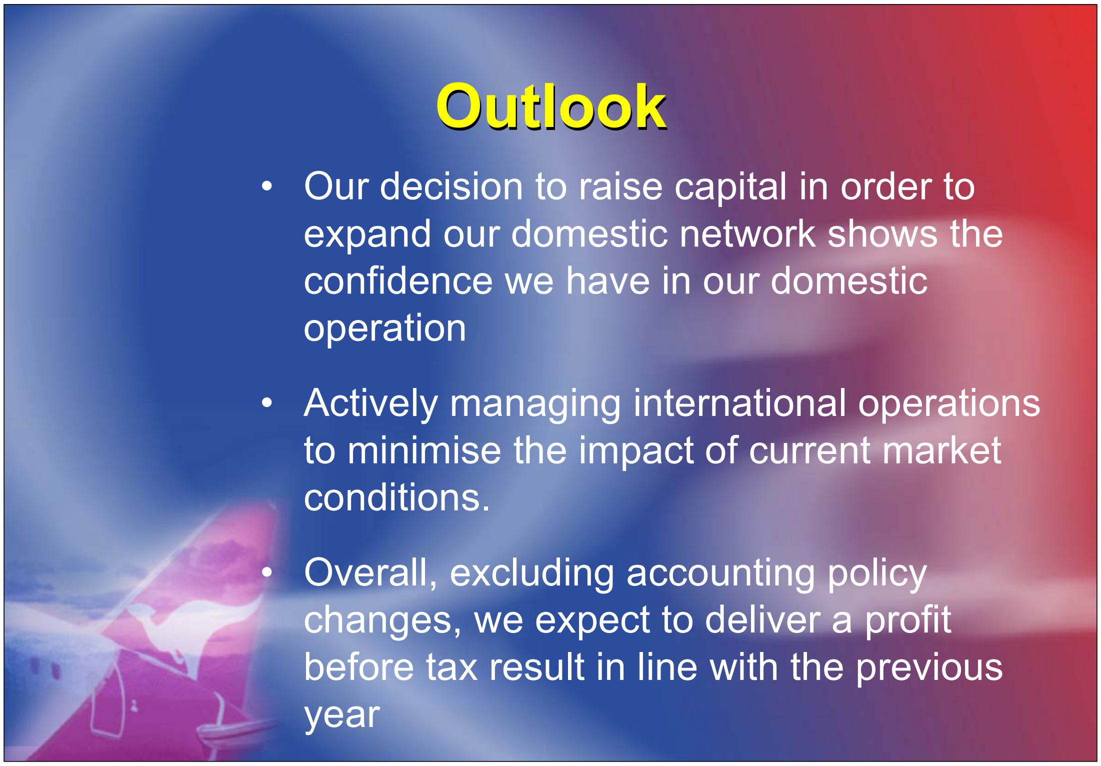


- Our recent A$450 million placement, together with the issue of a further A$200 million of shares under our share purchase plan, will ensure that we remain within our target gearing range of 50 to 60 percent.
- Book gearing, including off balance sheet debt, for the 2002 financial year is currently forecast to be slightly under 55 percent.
- This forecast is inclusive of approximately A$3 billion in capital expenditure, and compares favourably with an actual gearing level of 53 percent for 2001.



- In summary, the events of September 11 and 14 have irrecoverably changed the airline industry, both in Australia and globally.
- Our decision to raise capital in order to expand our domestic network shows the confidence we have in our domestic operation.
- And we are actively managing our international operations to minimise the impact of current market conditions.
- Overall, excluding accounting policy changes, we expect to deliver a profit before tax result in line with the previous year. That equates to a profit before tax result of A$550 million.
- This result will be skewed to the second half as a result of heavy discounting domestically in the first quarter and the cost of leased in capacity, as well as the impact of September 11 on our international business.
- That concludes the formal part of my presentation. I'd now like to answer any questions you may have.